The Advocate

SURS — Retirement System of Illinois

Vol. 13, No. 2

Legislative Update

Major changes made by Public Act 93–347

On July 24, 2003, Governor Blagojevich signed House Bill 3183, enacting it into law as Public Act 93–0347. The following is a brief overview of each of the substantive changes made by this legislation. Minor changes, such as the deletion of obsolete references, are not discussed. The section references are to the Illinois Pension Code, 40 ILCS 5.

§1-119 — The benefit to the alternate payee of a participant in SURS's defined contribution Self–Managed Plan (SMP) may now be set forth in a court order as a percentage of the participant's account.

§15-113 — This change explicitly acknowledges that a participant who purchases military service credit is directly paying the employer contribution.

§15-136 — The change to this section, in conjunction with the change to §15–113, clarifies how purchased military service credit is used under the Rule 2 calculation.

§15-154 — When a participant who purchased military service credit takes a refund, he or she is entitled to the entire amount paid to purchase the military service credit.

September 2003

Inside

§15-158.2 — The change to this section deletes the requirement that at least two of the investment providers under the Self–Managed Plan be insurance and annuity companies.

§15-186.1 — The change to this section allows the system to collect interest, at the effective rate, on overpayments.

§15-187 — The change to this section ensures that refunds paid to a convicted felon from the Portable Plan or from the Self-Managed Plan will not include accumulated employer contributions.

§15-190 — The change to this section allows more flexibility to those participants attempting to provide for a disabled beneficiary. The ability to pay to a trust, regardless of whether a guardian has been appointed, allows participants to plan for the needs of a disabled beneficiary.

Public Act 93–0448

Formerly HB2955, the governor approved this bill on August 6, 2003. This bill makes an exception to the rule that compensable sick leave can only be cashed out at the time of retirement. The exception is to accommodate more flexible terms contained in collective bargaining agreements negotiated under the Illinois Educational Labor Relations Act. The effect of this amendment to the State Finance Act is to allow university employees (i.e. state employees) to cash out two years of sick leave and have it taken into account in the calculation of their Final Rate of Earnings (FRE), if they have such a provision in their collective bargaining agreement. This new law puts university employees in the same position as community college employees, with respect to the cash out of sick leave provision. ❑

Editorial

Pension Contribution Holiday May Once Again Be a Possibility

By James Hacking, Executive Director

On April 4, the Illinois General Assembly passed the governor's pension bonding legislation (HB 2660). As a result, the state sold $10 billion of pension obligation bonds. $1.8 billion of the proceeds are being used to pay the state's fiscal year (FY)'04 required pension contributions to SURS and the other state contributory retirement systems. The excess proceeds, roughly $7.3 billion, were used to pay down the systems' unfunded liabilities, thus reducing future state pension contribution requirements. That took care of the pension contribution budget problem for state FY'04, but what will happen in FY'05 when the state will owe roughly $2 billion in pension contributions?

While the situation is far from clear, the developing signs look ominous. For one thing, during the last quarter of state FY'03, a $200 million budget deficit appeared, due to lower than expected revenues. It now appears that the revenue projections for state FY'04 may also be overstated. In addition, the state FY'04 budget assumed $350 million from the sale of the so-called "10th casino license." Unfortunately, that matter is tied up in litigation, which the state's Attorney General has said is unlikely to be resolved any time soon. Thus, the possibility exists that a serious FY'04 budget deficit will develop. If that happens, how will the state come up with the funds needed to meet its pension contribution obligations in FY'05?

These factors, if coupled with a suspension of contributions, would cause the systems' funding ratios, that are still anemic despite the bond proceeds infusion, to plummet as its unfunded liability rapidly grows.

The policy options have not changed much from what they were last year at this time. First, state officials could simply hope that the state's rate of economic growth will accelerate, causing state revenues to increase; but that may not happen or it may not happen in time to matter. Second, the state could raise sales and/or income taxes; but that too is unlikely, given the governor's "no tax increase" pledge and the fact that next year will be an election year. Third, the state could revisit the credit markets and sell more pension obligation bonds; but, unfortunately, long term interest rates are rising and that may make a "borrowing" strategy very risky, if not impossible. Fourth, the state could make drastic reductions in other budget items to accommodate the $2 billion pension obligation; but this ignores the fact that state spending continues to increase, even in FY'04, a year of supposed austerity.

Finally, the state could simply decide to take a pension contribution "holiday" in FY'05 and ignore its $2 billion obligation. Unfortunately, the retirement systems and the state's taxpayers would have to live with the consequences of that policy choice and Illinois has a rich history of pension contribution holidays from which to learn.

During the first half of the 1980's when the state was struggling with a budget crisis similar to the current one, funding that should have gone to the retirement systems was instead diverted to other spending programs. The consequences of those pension contribution holiday choices made over twenty years ago are reflected in the retirement systems' current funding ratios, which linger in the 50% range instead of the 90% range they could have been in had the state met its contribution obligations back then. Indeed, when contributions are not made and the systems lose the benefit of the compound interest on those contributions, the inevitable result is higher contribution requirements in the future. For example, had the state properly funded the SURS system in the early 1980's, the state contribution in state FY'04 for the SURS defined benefit plan would have been only $159 million, as opposed to the actual $318.4 million the state is currently obligated to pay. More dramatically, this failure to provide proper funding in the past has caused the SURS system's long–term cost, for which the taxpayers are ultimately responsible, to double from about $30 billion to over $60 billion through state FY'45.

Hopefully, budget policy makers will keep in mind the following factors before they seriously consider opting for a repeat of the contribution holiday scenarios of the past. First, pension liability growth never takes a holiday; it never stops growing. Second, the Illinois state constitution guarantees that earned benefits will be paid; therefore, the accruing benefit obligations are unavoidable. Finally, since we are still in the early stages of the 50–year funding program that began in state FY'96, the retirement systems still have negative "cash flow" (i.e. total benefit payments exceed total contributions). These factors, if coupled with a suspension of contributions, would cause the systems' funding ratios, that are still anemic despite the bond proceeds infusion, to plummet as its unfunded liability rapidly grows. That would most certainly get the attention of the bond rating agencies — just as it did in the 1980's — and they could lower the state's bond rating, thus driving up the state's cost for debt service. ❑

ING Terminated

Public Act 93–0347 (see related article above) changed the requirement for SMP Service Providers. In an effort to reduce administrative and investment expenses, and generate operational efficiencies, SURS has elected to terminate ING as a Service Provider. Assets currently held at ING are expected to transition to Fidelity Investments during the fourth quarter of calendar year 2003. SMP members will receive additional information regarding this change in the near future. ❑

Fidelity Investment
1–800–343–0860
www.fidelity.com/atwork

ING
1–800–584–6001
www.ingretirementplans.com/ilsmp

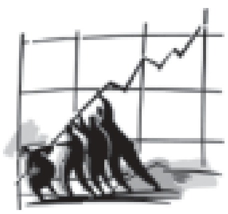
TIAA–CREF
1–888–219–8310
www.tiaa-cref.org/illinois

SURS SMP Counselor
1–800–275–7877
www.surs.org

Self–Managed Plan Resources

Self–Managed Plan (SMP) members can contact retirement counselors of the three Providers with questions regarding types of distributions and amounts available at retirement. These counselors are available to discuss specific funds, as well as the asset mix for investing at different ages and retirement dates.

The SURS SMP Counselor is available to discuss retirement and insurance eligibility/options, service credit purchases, and other SURS benefits. ❑



Investment Update

Fiscal Year End Results

Investment Results

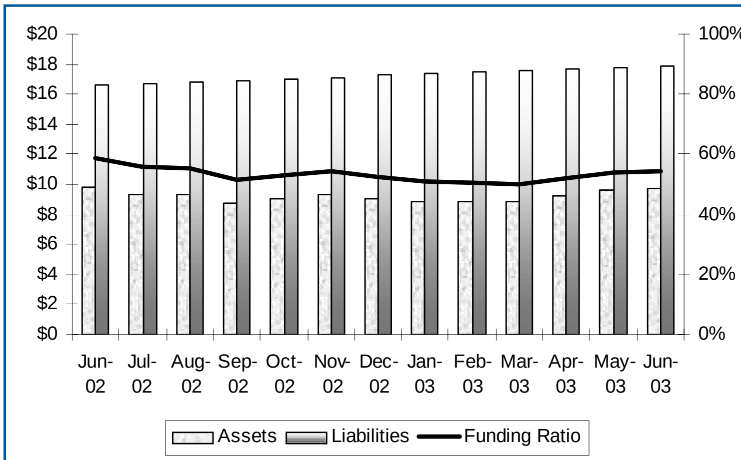
SURS's investment portfolio avoided a third consecutive fiscal year of negative returns, posting a positive 2.9% return, net of all fees and investment management expenses. This return falls slightly short of the primary benchmark return, a composite of market benchmarks for the asset classes in which the SURS assets are invested. That composite rose 3.0% for the twelve months ended June 30, 2003.

The asset classes in which the bulk of SURS assets are invested posted mixed results. The broad U.S. equity market, as measured by the Wilshire 5000 Index, rose 1.3% during the fiscal year. Non–U.S. equities, as measured by the MSCI All Country World ex–U.S. Index, fell 5.8% during this same period. The bedrock of most defined benefit plans, fixed income securities or bonds, rose nearly 11.5% as measured by the Lehman Brothers Universal Index. These three asset classes account for roughly 90% of the SURS investment portfolio.

Asset Values

SURS began fiscal year 2003 with $9.82 billion in assets and ended the fiscal year with an estimated $9.68 billion in assets. The roughly $350 million in negative cash flow accounts for the overall decline in asset value of nearly $140 million.

SURS assets will grow substantially during the first quarter of fiscal year 2004 as a result of the sale of $10 billion of Pension Obligation Bonds by the State of Illinois in early June. This bond sale allocated the proceeds to all five of the state contributory retirement systems. SURS's portion of the bond proceeds will be divided into three components. The first component is a $63 million payment representing the final quarterly installment of the fiscal year 2003 employer contribution. The second component will be the $350 million required employer contribution for fiscal year 2004. The third and final component will be a one–time cash infusion of $1.4 billion that will be utilized to cover a portion of the existing unfunded liability. These assets have been invested in the same overall asset allocation as the rest of the plan assets.



System Liabilities

Our projections for System liabilities indicate that liabilities for SURS increased roughly $1.3 billion during fiscal year 2003. This projection takes into account normal liability growth, which can be offset by gains and losses from the various actuarial assumptions employed by SURS actuary. The accompanying chart indicates that SURS's funding ratio is estimated to have declined to 54.3% during the fiscal year. The results of the fiscal year 2003 valuation study will be completed later this fall, and the results generated from that valuation will be used to set the required employer contribution for fiscal year 2005. The required employer contribution for fiscal year 2005 was projected to be $403.75 million based upon the results of the fiscal year 2002 valuation report.

Self–Managed Plan (SMP) Assets Continue to Grow

SMP assets continued to grow during the twelve months ended June 30, 2003. As of the end of the fiscal year, total member assets in the plan stood at slightly more than $170 million, up from $120 million at the beginning of the fiscal year. The bulk of the growth in SMP assets was fueled by a positive cash flow and contributions from members and employers of nearly $52 million. ❑

SURS Responds to OMB

Representatives of SURS, Teachers' Retirement System (TRS), and the Illinois State Board of Investments (ISBI), were invited to a meeting at the offices of Mesirow Financial on June 3, 2003. The meeting was called by John Filan, Director of the Office of Management and Budget for the State of Illinois (OMB).

The intent of his meeting was to establish a dialogue with the pension funds to determine how they intended to invest the $7.3 billion of "excess" proceeds from the sale of $10 billion of pension obligation bonds. OMB officials expressed a preference for a coordinated approach and for an investment strategy that would be focused primarily on the preservation of the principal of the bond proceeds. Mr. Filan also made mention of his desire to discuss a possible future consolidation of the assets of the systems under the management of the ISBI Board of Trustees.

After the bonds were marketed on June 5, a series of additional meetings were held between the OMB representatives and their advisors and representatives of the three systems. These meetings occurred on June 6, June 9, and June 18. In addition, OMB Director Filan and his advisor from Mesirow Financial met with the boards of the three systems separately at the boards' regularly scheduled meetings on June 10 (TRS), June 19 (SURS), and June 27 (ISBI). OMB also held a meeting of the trustees of all three boards on June 26.

OMB's message at all these meetings seemed to be as follows. Given the uncertainty of the economic recovery and the volatility of the financial markets, especially the stock markets, the bond proceeds that would be distributed to the systems in early July should be invested conservatively in order to preserve principal. Only when the economic recovery has clearly taken hold, should the systems change their investment strategies with respect to these proceeds to a more aggressive one; one utilizing stocks, a higher return, but also more risky asset class.

Although a number of investment strategies were discussed, including a suggestion by one OMB advisor that the retirement boards pursue a "hedge fund" investment strategy, the primary focus seemed to be that the retirement boards should employ a strategy of "market timing" – that is, a strategy of moving the bond proceeds from one asset class to another (for example, from fixed income investments to stocks) in anticipation of which asset class will perform the best (i.e. provide the highest return for the next period of time).

During the joint meeting of the retirement boards on June 26, OMB Director Filan requested a response to four points he made during his presentation. Although it was not exactly clear to the meeting attendees what those four points were, and although an effort by SURS to obtain a clarification from OMB was unsuccessful, SURS did respond to four issues that were reflected in the meeting notes taken by SURS staff. The SURS response can be found in its entirety at **www.surs.org**, under News Features. To obtain a printed copy, contact SURS.

After appropriate deliberation at their respective meetings on June 10, 19, and 27, the retirement system boards, relying on advice from their professional investment staffs and their investment consultants, rejected a market timing strategy. Instead, they elected to invest the bond proceeds in accordance with their respective long–term asset allocations and remain consistent with the way in which they invest all other system assets. All three boards adopted formal motions reflecting their respective decisions.

Although the retirement system boards acted independently of each other, their rejection of a market timing strategy was consistent. They all appeared to recognize that for a market timing strategy to be successful, the retirement boards would have to accurately predict not only which asset class will perform the best over the next time period so that assets could be moved there, but also the precise timing of when to move those assets. In addition, the boards would later have to accurately predict where to move those same assets next and when to move them. Any mistake in the asset class selected or mistiming of the asset moves would almost certainly result in a rate of return on those assets, net of transaction costs, that would be less than the rate of return that would have been generated on those same assets had they been left in their original, diversified, asset allocation configuration. ❑

Meet the Board: Nancy DeSombre

Ms. DeSombre was appointed by the Governor to the SURS Board of Trustees in July 1995. She was appointed President of Harold Washington College in October 1994. Ms. DeSombre has been associated with City Colleges of Chicago since 1962 as Professor of English at Wilbur Wright College and later as Chairperson of the English Department at Wright College until 1980. She served as the Dean of Vocational Programs (1981–82), the Dean of Instruction (1982–86), and was Vice President for Faculty and Instruction, Wilbur Wright College from 1987 until her appointment as President of Harold Washington College in 1994.

Ms. DeSombre received her B.A. (1961) and M.A. (1962) from the University of Chicago. Additionally, she was awarded a Certificate from the Institute for Educational Management from Harvard University in 1990.

Ms. DeSombre has served in several positions with the North Central Association for Colleges and Schools, Commission on Institutions of Higher Education (NCA) and presently serves as Consultant Evaluator. She serves on the Board of Directors of LaSalle Bank, the Board of Directors of the Greater State Street Council, the Board of Directors of the American Association of Community Colleges, as President of the Board of Directors of the Frank Lloyd Wright Home and Studio Foundation in Chicago, and is a member of the Chicago Network.

Included among the awards, honors and recognitions she has received are: Woman of the Year, National Association of Women in Community College (1999); Outstanding College President, Phi Theta Kappa National Award (1996); selected as one of the 100 Women Who Make a Difference, *Today's Chicago Woman* (1996); the Executive Leadership Institute, League for Innovation (1994); Woman of the Year (1993); Superior Public Service Award; Outstanding Executive, City of Chicago (1989), and Alumni of the Year, University of Chicago (2001).

2003 Benefit Payment Schedule

The following is the remaining schedule for SURS monthly benefit payments during 2003. On the first working day of the month, all electronic fund transfers (EFTs) for disability retirement allowances, retirees, survivors, beneficiary annuitants, and reversionary annuities are made. Dates for these payments in this calendar year of 2003 are: October 1, November 3, and December 1.

On the last working day of the month, all paper checks and statements are mailed and disability EFTs are deposited. Dates for these payments are: September 30, October 31, November 26, and December 31.

Around the 15th of the month, SURS submits a pre–notification to the financial institutions receiving EFTs, allowing them to list any corrections in account transmittal information. Any direct deposit changes received at SURS after the pre–notification is processed will result in a paper check being mailed directly to the bank for the first month. Therefore, requests for changes in direct deposit must be received by SURS prior to the 10th of the month. ❑

HIPAA Act Protects Health Information

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in April 2003 by the federal government to inform consumers about how their health information is being used, give consumers access to their own health records and the right to make corrections, and define and limit the circumstances in which organizations can use or disclose protected health information (PHI). PHI includes individually identifiable information, information related to condition, treatment, or payment, and information transmitted or stored.

As a result, SURS can no longer call providers on behalf of members. You should contact your claim provider to check on the status of an insurance claim. The majority of claim denials occur because it was submitted incorrectly from the provider. Make sure you send your provider copies of claim information and request that you be informed of any action in writing.

2003 Benefit Summary Statements

As the end of the Academic Year approaches, SURS begins assembling and testing the information for the annual *Benefit Summary Statements*. As in the past, members who enrolled in the Traditional or Portable Benefit Packages can expect to begin receiving their statements in mid–November. The annual statement information will be updated through August 31, 2003, the end of the academic year. Members in the Self–Managed Plan (SMP) can expect their next statements in October.

SURS staff has always done the calculation and programming portion of the statements and started doing the printing and mailing in 2002. Due to the cost savings and the greater flexibility that the in–house printing allows, we expect to continue to do so in the future.

The production of the statements is a complicated process and requires a great deal of coordination. First, the Accounting Department must wait until the end of the academic year and for the August payrolls from all 69 employers to post before they may complete their year–end balancing. Each year, the statement wording is examined and updated to reflect any law changes. The data is then assembled and tested. The testing involves performing a sampling of hand–calculated statements to compare to the computer–generated statement figures for accuracy.

Once the testing is complete, the printing process begins. This year, SURS will have approximately 87,000 active participants and 57,000 inactive participants. Of those, we have approximately 11,000 participants who we know have bad addresses on file. For those members we will not produce a paper statement.

The 133,000 statements that are printed are then mailed in batches, which are in zip code order. Of these, more than 2,000 will likely be returned by the Post Office as undeliverable, based on past history. These bad addresses will then be flagged as bad addresses on our system, preventing future returned mailings for that member. Because of this, SURS strongly encourages you to keep us posted of any address changes, so that we may continue to provide our members with the latest benefit information. ❑

Speedy Delivery!

Now, in addition to the *Advocate*, you may elect to receive your Benefit Summary or Unified Statements online. By choosing this option, you will be notified by email when the most recent versions are available on the SURS Member Website, instead of receiving a paper copy by mail.

To register, visit the Member Website at **www.surs.org** and click on "Web Delivery Options" at the bottom of the homepage. When you register, be sure to use a valid email address. A message will be sent to this address whenever a new version of the statement or *Advocate* becomes available online. This message will include a link that will take you to the Member Website. If at any time you decide you would rather go back to receiving a paper copy by mail, you can un–register yourself by accessing the same "Web Delivery Options" screen on the Member Website.

This is the Year You Need to Join SUAA

It looks like this will be the year you need the State Universities Annuitants Association (SUAA) and the one when SUAA needs you! It appears the state budget will be in worse disarray next year than last and, unless taxes are raised, in Springfield the name of the game will be "cut and cut some more". Thanks in part to SUAA, our pensions and health benefits survived intact this past legislative session, but they will be even more exposed next year.

SURS basic pensions are protected by the state constitution, but other features that are also important to us are not. Currently, our pensions are not taxed; but that could be subject to change.

The American Federation of State, County, and Municipal Employees (AFSCME) contract will be up for negotiation this year and our health benefits and costs are tied to the health benefits that will be negotiated as part of that contract. For those of you whose pensions suffer from the Social Security "gap," SUAA is part of a national movement to eliminate that injustice.

SUAA is not a part of SURS, although it works closely with SURS on pension matters. SUAA is a voluntary association of annuitants, both retirees and active employees of the SURS system (there is no minimum age to become a member), whose primary purpose is to protect and enhance the benefits of SURS retirees and spouses. SUAA has chapters representing retirees and spouses from all state universities and, soon, all community colleges in Illinois.

In total, SUAA has more than 10,000 members located across the country. It has statewide officers and operates a central office in Springfield with a full–time Executive Director. It has a part–time Springfield "insider" and a committee of volunteers who monitor legislative happenings. When necessary, the central office mobilizes all membership of the 43 campus chapters to put the pressure on through their local legislators, legislative leadership, and the governor's office.

SUAA's membership of 10,000 is a force in Springfield on retirement matters. But, there are over 30,000 SURS retirees and survivors. Imagine what a force SUAA would be if everyone was an SUAA member!

Essentially, SUAA is the only organization whose primary purpose is to protect your retirement or survivor benefits. It is the closest thing that you have to retirement benefit insurance. You can have dues deducted directly from your retirement check for about $2.50 a month.

Membership in SUAA is even more important if you live out of state. You have no legislator to write; therefore, you have to depend on the members of your chapter and the rest of the in–state SUAA members to speak for you.

Because dues include a local chapter component and each chapter sets its own local dues, you need to check with the SUAA Central Office (888–547–8473), the SUAA website (**www.suaa.org**), or any member of your local chapter about the cost of dues and how you can join. ❑

Attention: Inactive Participants

Are you...

- a member of SURS, but are no longer actively working for a community college or university in Illinois?
- at least age 55 with eight or more years of service credit, or at least age 62 with five years of service credit?

If so, you may be among the number of inactive SURS participants who are eligible to receive retirement benefits. Most participants are not aware that they can receive their SURS benefits and continue working outside of our system.

For more information, or to obtain an application for benefits, we encourage you to contact a SURS Benefits Counselor at 800–275–7877 or 217–378–8800 in the Champaign–Urbana area. ❑

Pre–Retirement Seminars

SURS is offering four pre–retirement seminars at its office in Champaign this fall. These popular one–day seminars cover universal issues related to retirement and financial planning. The information presented will closely follow the format used in past seminars.

The seminars are scheduled for October 4, October 18, November 8, and December 6. They will be held at SURS, 1901 Fox Drive, Champaign, from 8 A.M. to 3 P.M. Topics will include SURS benefits, legal affairs, and financial planning. The enrollment fee is $20 per member and $10 for a non–member guest. Lunch and refreshments are included in the fee.

Retirement Seminar Application

Do not send any money yet. When your enrollment is accepted, you will be notified of the fee due.

Name	Social Security #
Street	City, State, Zip
Home phone	Work phone
Email address	Date I wish to attend
Anticipated retirement date (doesn't commit you to retiring)	Guest Name

Return to: Karen Maggio, SURS, 1901 Fox Drive, Champaign, IL 61820 or fax to (217) 378-9800

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